

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 PA-01 CTME-00 AID-05 SS-15
STR-07 ITC-01 TRSE-00 SP-02 SOE-02 OMB-01 DOE-15
NSCE-00 SSO-00 ICAE-00 INRE-00 /110 W
-----042574 191518Z /50

O R 191418Z MAY 78
FM AMEMBASSY HELSINKI
TO SECSTATE WASHDC IMMEDIATE 2745
USMISSION GENEVA
INFO AMEMBASSY COPENHAGEN
AMEMBASSY OSLO
AMEMBASSY STOCKHOLM

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DEPT PASS STR ELECTRONICALLY

DEPT PASS TREASURY

E.O. 11652: N/A
TAGS: ETRD, FI, GATT
SUBJECT: GATT-BOP CONSULTATIONS WITH FINLAND

REF: (A) GENEVA 07667, (B) HELSINKI 1423, (C) 77 GENEVA 4355,

1. SUMMARY. EMBASSY CONCURS WITH RECOMMENDATION OF
U.S. MISSION GENEVA THAT US BEAR DOWN ON FINNS IN GATT
BOP COMMITTEE, ESPECIALLY IN VIEW OF SHARP IMPROVEMENT
IN TRADE, CURRENT ACCOUNT AND FOREIGN EXCHANGE SITUATION.
END SUMMARY.

2. WE THINK THE RECOMMENDATION SET FORTH REF A THAT THE U.S. TAKE
A HARDER LINE TOWARD FINLAND THIS YEAR IN BOP COMMITTEE IS
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WELL-FOUNDED, ESPECIALLY IN THE LIGHT OF FINLAND'S SHARPLY
IMPROVING BALANCE-OF-PAYMENTS SITUATION. WE OFFER THE FOLLOWING
ADDITIONAL POINTS:
A. PRELIMINARY STATISTICS SHOW THAT FINLAND'S
JANUARY-APRIL TRADE SURPLUS WAS ABOUT FMK 800
MILLION (\$1.00 EQUALS FMK 4.27), COMPARED WITH
ABOUT FMK 135 MILLION OVER FIRST FOUR MONTHS OF

LAST YEAR. SURPLUS LAST MONTH WAS ABOUT FMK 480 MILLION, BY FAR THE LARGEST FOR ONE MONTH SINCE OIL CRISIS. FINNISH CURRENT ACCOUNT POSITION IS SHIFTING SHARPLY FROM DEFICITS OF FMK 4,507 MILLION IN CY '76 AND FMK 774 MILLION IN CY '77 TO AN EXPECTED SURPLUS OF SOMEWHERE OVER FMK 400 MILLION THIS YEAR. MOREOVER, FOREIGN EXCHANGE RESERVES ARE INCREASING WITH GROWING EXPORT EARNINGS, GOVERNMENTAL BORROWINGS OVERSEAS, AND ADDITIONAL STANDBY CREDITS ARRANGEMENTS (REF B).

B. BALANCE OF PAYMENTS HAS IMPROVED MUCH MORE THAN FINNS FORECAST IN 1977 BOP COMMITTEE REVIEW (REF C). EXPORTS GREW 26.3 PERCENT, IN CURRENT FINNMARKS, VS. 11.5 PERCENT FORECAST, WHILE IMPORTS GREW 7.6 PERCENT VS. ONE PERCENT FORECAST. CURRENT ACCOUNT DEFICIT DECLINED BY WELL OVER 80 PERCENT, VS. 50 PERCENT FORECAST. GOAL OF REDUCING CURRENT ACCOUNT DEFICIT TO 2.5 PERCENT OF GDP BY 1980 HAS ALREADY BEEN ACCOMPLISHED, AND IN FACT BANK OF FINLAND EXPECTS A SURPLUS THIS YEAR.

C. THIS IMPROVEMENT IS STRONGLY CYCLICAL IN CHARACTER, IN TERMS OF BOTH RECOVERY OF FOREST PRODUCTS MARKETS OVERSEAS, SUBJECT TO SHARP SWINGS, AND OF CURRENT LOW LEVEL OF DOMESTIC ECONOMIC ACTIVITY AND DEMAND FOR CAPITAL IMPORTS. WHAT THE PICTURE WILL LOOK LIKE IN TWO OR THREE YEARS IS HARD TO LIMITED OFFICIAL USE

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FORESEE. THIS UNCERTAINTY REINFORCES MISSION'S ARGUMENT THAT HIS BOP COMMITTEE MEETING SHOULD NOW SET THE STAGE FOR ADVERSE FINDING AT SUBSEQUENT MEETINGS IF FINNS DO NOT REMOVE RESTRAINTS OR--A MORE REALISTIC GOAL IN CASE OF AGRICULTURAL QUOTAS-- AT LEAST WITHDRAW THEIR JUSTIFICATION IN TERMS OF ARTICLE XII.

D. SOME LICENSING AND QUOTA RESTRICTIONS ARE LONGSTANDING. THE GLOBAL QUOTA SYSTEM WAS ESTABLISHED IN 1957--AT THAT TIME IT CONSTITUTED A LIBERALIZATION--TO SAFEGUARD DOMESTIC PRODUCTION, EMPLOYMENT, AND BALANCE OF PAYMENTS. NOW OBSERVERS BELIEVE ITS MAIN PURPOSE IS TO PROTECT AGRICULTURE. A FAILURE OF THE COMMITTEE IN NEAR FUTURE TO ARRIVE AT FINDING THAT THESE QUOTAS ARE NOT JUSTIFIABLE UNDER ARTICLE XII STRIKES US AS TANTAMOUNT TO TACIT CONCESSION THAT BOP COMMITTEE IS UNABLE TO DEFEND XII:2(A).

E. WHILE FINLAND'S FOREIGN TRADE WITH THE SOVIET UNION AND MOST EE'S (EXCEPTIONS: POLAND AND CZECHOSLOVAKIA) ARE CONDUCTED ON A BALANCED BASIS SO THAT FOREIGN EXCHANGE LOSSES ARE LIMITED TO SWING CREDITS, FAILURE TO APPLY "GLOBAL"

QUOTAS AGAINST SOVIET UNION AND EE'S
CONSTITUTES TRADE DISCRIMINATION, WITH EFFECTS
IMPOSSIBLE TO IDENTIFY, LET ALONG ESTIMATE.
HOWEVER, IT SEEMS TO US--AT SOME REMOVE FROM
THESE ISSUES--THAT THE FINNS MIGHT COUNTER
CRITICISM ON THE GROUNDS OF DISCRIMINATION BY
POINTING TO XXIV:8(A)(I) AS REQUIRING THEM TO
REMOVE APPLICATION OF LICENSING TO COUNTRIES WITH
WHICH THEY HAVE CONCLUDED TRADE (KEYSOS) AGREEMENTS.
F. APPLES AND ORANGES: QUOTAS MAY OCCASIONALLY
NOT ONLY REDUCE BUT ALSO DISTORT PATTERNS OF IMPORTS FROM
WESTERN COUNTRIES. EXAMPLE: EXISTENCE OF A GLOBAL QUOTA SET
IN TERMS OF VALUE, NOT VOLUME, FOR FRUIT JUICES MAY
LEAD IMPORTERS TO BUY HIGHER PROPORTION OF LOWER
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COST BRAZILIAN ORANGE JUICE THAN FLORIDA ORANGE
JUICE, ON WHICH THE PROFIT MARGIN IS SAMLLER AS PERCENTAGE
OF COST. IMPORTS OF ORANGE JUICE FROM BOTH
COUNTRIES MAY SUFFER, BUT THOSE FROM THE US SUFFER
PROPORTIONATELY MORE. INCIDENTALLY, LICENSING BOARD
OFFICIALS ADMIT PRIVATELY THAT GLOBAL QUOTA FOR
FRUIT JUICES IS IN PLACE TO PROTECT FINNISH APPLE
GROWERS.
FRY

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